

# NEW ENTERPRISE CREATION ACT

## MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

### **PURPOSE**

To generate investment for new, startup Missouri businesses that have not developed to the point where they can successfully attract conventional financing or significant venture capital from later-stage funds.

### **AUTHORIZATION**

Sections 620.635 – 620.653 RSMo.

### **HOW THE PROGRAM WORKS**

The Department of Economic Development (DED) will issue tax credits equal to 100% of the investment in a qualified fund to any accredited individual, corporation, partnership or financial institution who makes a qualified investment.

The Missouri Seed Capital Investment Board was created to establish a qualified fund. The Board is comprised of thirteen members, eight of which are appointed by the Governor.

Prolog Ventures, LLC (Prolog) was selected by the Board as the Fund Manager to raise the contributions and manage the investments of the fund. Prolog entered into a contract with the four Innovation Centers, as required by statute. Investors in the qualified fund will also be required to invest in a non-qualified parallel fund that will make investments in Missouri and surrounding states. Prolog will make investments in qualified Missouri businesses in need of early-stage or “seed” funding.

### **ELIGIBLE AREAS**

Statewide.

### **ELIGIBLE USE OF FUNDS**

Investments made through this program may be used for research; development and precommercialization activities to prove a concept

for a new product, process or service; preproduction product development; service development; or initial marketing of a product.

### **ELIGIBLE APPLICANTS FOR INVESTMENT**

Any independently owned and operated business that is headquartered and located in Missouri and maintains a Missouri headquarters for at least three years. The business must be involved in commerce for the purpose of production, conducting research and development or providing services in interstate commerce. The focus is on businesses in the startup or development phase.

Prolog is seeking businesses based upon proprietary technology with the potential to develop a strong intellectual property position. Areas of interest include medical devices and diagnostics, human and agricultural biotechnology and biomedical IT. Of potential interest are instruments, photonics, new materials and software.

Businesses that are excluded from investments include retail and consumer, real estate, oil and gas, minerals, telecom networks, Internet portals and publishing and consumer-oriented IT.

The business should have no positive cash flow in the prior fiscal year. Revenue oriented companies should target at least \$30 million in revenues in five years. Businesses whose valuation is not dependent upon revenues will be evaluated according to its potential for valuation increases upon attaining milestones. The business should be willing to provide a non-confidential summary and hold initial discussions on a non-confidential basis.

The business must maintain its headquarters in Missouri for a period of at least three years from

the date of the qualified investment or be subject to penalty.

### **FUNDING LIMITS**

The Prolog Funds will typically invest between \$500,000 and \$1,500,000 in a single business. They have the potential to invest \$2,000,000-\$3,000,000 at the maximum.

No more than 10% of all of the qualified contributions to a qualified fund may be invested in a single qualified business.

Investments shall not be provided to any business that has experienced positive cash flow in a past fiscal year, with the exception of follow-up capital limited to qualified businesses that previously received qualified investments. No more than 40% of qualified contributions may be used for follow-up capital purposes.

### **APPLICATION PROCEDURE FOR THE BUSINESS**

The business seeking an investment should send Prolog a non-confidential executive summary of their business plan. Applicants will be contacted directly by Prolog regarding their level of interest and any subsequent steps that are required. DED does not have the authority to require the Fund Manager to fund a project.

### **FUND MANAGER**

Prolog Ventures, LLC  
7733 Forsyth, Suite 1440  
St. Louis, MO 63105  
Phone: (314) 743-2400 Fax: (314) 743-2403  
Contact: Gregory R. Johnson, Managing Director  
Email: [grj@prologventures.com](mailto:grj@prologventures.com)

### **ELIGIBLE USE OF TAX CREDITS**

DED provides the investor a tax credit equal to 100% of their investment in the qualified fund. The tax credit may then be used to offset state income tax (chapter 143, RSMo), corporate franchise tax (chapter 147, RSMo) or financial institution tax (chapter 148, RSMo) liability, other than taxes withheld pursuant to sections 143.191 to 143.265, RSMo.

DED may authorize up to \$20 million in tax credits for use by the qualified fund, with no more than \$5 million of tax credits being issued in any one year. Tax credits may be claimed for the tax year in which the qualified contribution is made or in any of the following ten years. Tax credits may be sold and transferred to another taxpayer having tax liability.

### **APPLICATION PROCEDURE FOR THE INVESTOR**

Accredited investors should contact Prolog directly. If accepted, the investor will be asked to fill out Missouri Form 620-635 and return the completed form to DED for approval and certification. DED will issue a tax credit certificate authorizing the applicant to claim the tax credit.

### **SPECIAL PROGRAM REQUIREMENTS**

The seed capital and commercialization strategy was adopted by the Missouri Seed Capital Investment Board on June 23, 2000.

No qualified contributions which generate tax credits before the second round of tax credit allocations can be used for follow-up capital investments.

### **CONTACT**

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